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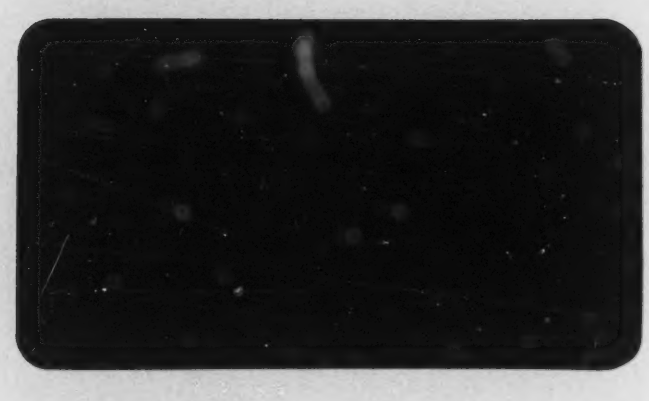

KENT ECONOMIC
AND DEVELOPMENT
INSTITUTE

KENT STATE UNIVERSITY FOUNDATION, INC.
KSU Campus, Student Center
Kent, Ohio 44242/U.S.A.

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KEDI ECONOMIC SURVEY

U.S.ECONOMIC OUTLOOK FOR 1981

December 30, 1980

President: Vladimir J. Simunek

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Editor and Assistant Writer: Diane L. Lewis

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1.0 OVERVIEW AND ASSUMPTIONS

1.0 OVERVIEW

The first of the year often begins with resolutions, some regrets and, hopefully, a bit to ponder with some rejoicing. KEDI looks back to the forecast made a year ago, and overall, that provides satisfaction with the general accuracy of it. To quote from the December KEDI issue of 1979, page 3; "KEDI's outlook for 1980 is not exactly rosy: continued high inflation and a mild downturn followed by sluggish economic growth." On page 5 of that same issue, the following statement was made: "In general, KEDI predicts the average output will be slightly below the level of 1979, unemployment will go higher, and inflation will be a little more severe this year."

Due to the revisions going on in the Commerce Department for Income and Product data all the way back to 1929, actual figures aren't repeated here as they aren't strictly comparable. This issue has been delayed as tables here were being updated to incorporate those changes first announced December 23.

Looking ahead now to 1981 does not provide rejoicing about the economy. However, there is some good feeling as a bit of growth is better than none at all. Overall, KEDI forecasts that 1981 will be a better year than 1980. Adjusted for inflation, GNP will expand at a rate of 1.7 per cent in contrast to the estimate of the decline in 1980 of 0.1 per cent. This forecast is in line with the majority of economists looking at 1981.

Two distinct halfs of 1981 are forecast.

1. The first half of the year will be essentially flat with good performance by some industries and declines and some troubles in others. The main increases will be in machinery, chemicals, ordnance and accessories, aircraft and space, coal, steel, iron, aluminum, and plastics. Fluctuations up and down will be the norm for automobiles, housing, clay construction products, textiles, appliances, apparel, and furniture.

2. In the second half of the year, the economy will pick up, and growth will spread to all industries. There will be improvement in the auto industry, substantial gains in the output of food, appliances, paper and products, and rubber. Housing will remain depressed. Crop production will exceed the 1980 level by roughly 3 per cent--assuming no calamitous weather conditions.

Demand and Confidence. Consumer demand will remain cautious. It will increase somewhat after the first quarter of 1981. Purchases of consumer durables will rise considerable starting in the second quarter and stay at a fairly high level the rest of the year. Business confidence will remain strong during the year.

Personal Consumption. This will increase by 1.5 per cent during 1981 as compared to 1980. The main areas of gain which will occur in the second part of the year will be in consumer durables such as appliances, autos, and furniture.

Business Capital Spending. This Institute has an optimistic outlook. As compared with 1980, capital outlays are expected here to gain by 14 per cent unadjusted for inflation.

Foreign Trade. Grain exports will be mainly responsible for an improved performance in foreign trade. Such exports will grow by 10 per cent as compared to 1980. Oil imports will rise but not significantly.

Prices. KEDI projects the inflation rate at 12.3 per cent for 1981 as measured by the Consumer Price Index. Food prices will rise by 11 per cent during the year. A main contributor to the price index gain (and to the lowering of thermostats) will be the cost of energy: it will go up by approximately 17 per cent. (Flannel nightgowns have gotten prettier--romance doesn't have to decline just because the room temperature of the energy conscious does.)

On Christmas eve (not much of an early present), The Wall Street Journal published an article about economists' view of 1981. KEDI agrees with the following views of a fairly stagnant first half and growth in the latter part of the year. Typical was the view of Lawrence Chimerine of Chase Econometrics that the economy will be close to flat in the first half of the year. Those forecasters consulted by Blue Chip Economic Indicators pointed to an average of a tiny decline in the first quarter of 0.1 per cent in U.S. output and a gain in the second quarter of 1.8 per cent.

Malcome Baldrige, Reagan's Secretary of Commerce, also expressed the view that there will be some decline in the first quarter of the year.

KEDI also agrees with the OECD view that recovery will be weak in 1981--especially in the first half of the year for both the industrialized and the less developed nations. The exception is the OPEC nations. (When you've got it, flaunt it.)

This Institute does not agree with the more pessimistic views of the following: A Goldman, Sachs & Co. partner that looks to marked decline in January, and the president of Merrill Lynch Economics viewing an extended recession in 1981.

Concerning the long term forecast for 1981 through 1984 made in the last issue it is repeated here. The only changes are minor fractional ones for inflation and growth in 1981.

1981. The economy will grow at a slow rate in the 1.7 per cent range. The first half of the year will be nearly flat. The second half will show increased economic activity. The inflation rate will be in the 12.4 per cent range. Interest rates will be high and the unemployment rate will decline a bit.

1982. The forecast here shows more improvement with an overall growth rate of 3.2 per cent. Business capital outlays, housing and car sales will be substantially higher than in the previous year. Interest rates will decline more than they had in the prior year. Inflation will be in the 10 per cent range and unemployment will again decline slightly.

1983. This year will show another gain in the rate of growth; 3.8 per cent is foreseen here. Interest rates will approach a more normal level and unemployment will be approximately 6 per cent. The inflation rate will remain at the level of 1982--around 10 per cent.

1984. Some slowdown in economic activity is foreseen, but no recession is anticipated. The inflation rate will remain in the double digit range. Unemployment will not change significantly. Some slight increases in the interest rates are expected.

The KEDI forecast is highlighted in Table 1.0 on the following page.

KENT ECONOMIC AND
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MONTH: December 198

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1980	1981	1982	1985
Gross National Product	bil. const. 72 $	1480.4	1505.6	1555.2	1668.7
Index of Industrial Production	1967 =100	146.1	151.6	161.3	175.2
Capacity Utilization	%	78.5	81.3	86.1	87.3
Unemployment Rate	%	7.2	7.4	6.5	6.3
Private Housing Starts	mil. units	1.321	1.483	1.770	1.936
Car Sales	mil. units	8.6	9.4	10.6	12.4
Implicit GNP Price Deflator	1972 =100	177.1	192.3	206.9	270.0
Consumer Price Index	1967 =100	246.1	276.8	306.8	431.6
Producer Price Index	1967 =100	271.0	305.3	336.7	465.4
Federal Deficit	bil. $	-38.4	-52.9	-40.1	-22.1
Personal Income	bil. $	2128.6	2383.5	2635.1	3314.9
Prime Rate	%	15.43	15.68	12.65	11.14
Mortgage Rate	%	12.97	14.49	12.65	10.91
Currency plus Demand Deposits	bil. $	375.3	408.5	442.2	534.7
Commercial and Industrial Loans	bil. $	310.8	325.6	367.4	430.7

The following assumptions are part of this forecast. Compared with assumptions incorporated into the November, 1980 issue, the changes concern the Assumption No. 3, and updates of Assumptions No. 4, and No. 7.

1. In 1985, all U.S. demands for oil should be met. The weighted price of oil in 1981 will go up to the $40 range. In 1982, it is expected the price will go up to $46, in 1983, to $57 per barrel. In 1984, to $63 per barrel, and in 1985, to $72 per barrel.

2. It is expected, that the Iranian-Mid East crisis will continue throughout this and the next year, and more normal economic situations, including a significant resumption in the area's of oil exports, will take place not earlier than in 1983.

3. Some relaxation of tight monetary policy and drops from record high interest rates will take place early in 1981. However, high interest rates and restrictive monetary and credit policies will prevail in 1981 and 1982.

4. It is assumed that in 1981 the new Administration will adopt a definite program in fighting the inflation. The Federal Reserve Board will, at long last, begin a policy of setting limits to the monetary growth by long-term commitments, not just short-term as has been the policy in the past. Price and wage controls must remain the last resort of stabilization policy. The tax cut of $22 billion for the year 1981, and the budget cut of $15 billion will be adopted.

5. Our foreign trade with China will gain a substantial momentum in 1981 and following years.

1.1 REAL GROWTH
(Tables 1.10, 1.11, and 1.12 on pages 8, 11, and 16)

The forecast by KEDI for industries during 1981 is a mixed one for the first part of the year, as was highlighted in the previous section. In the second part of the year, general growth in most industries is anticipated. Table 1.10 on page 8 shows the performance of industries in 1981, as measured by the Index of Industrial Production (IIP).

Mining. There will be a continuation of good performance here. Output of bituminous coal will gain slightly less than it had in the previous year. A substantial increase is expected in iron ore, and small increases in nonferrous ores mining.

Food Industry. As measured by the IIP, the gain here will be 2.0 per cent. Significant gains in grain mill products are expected whereas meat products will be flat, and dairy products will increase slightly.

Textile and Apparel. Here, the pattern will be mostly a flat, straight line with some upward trend during the second half of the year. The IIP yields a .4 per cent gain in 1981 as compared to 1980.

Furniture and Fixtures. No real gains are expected here before April or May of 1981. The IIP reflects a flat performance for 1981.

Paper and Products. The forecast points to recuperation from the downturn of 1980. A gain of 4.0 per cent is calculated for 1981 over the prior year. Main

TABLE 1.10 REAL GROWTH
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980:4	1981				1981
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1484.3	1486.7	1496.7	1510.4	1528.6	1505.6
Index of Industrial Production	1967=100	147.9	149.1	150.4	152.3	154.4	151.6
Unemployment Rate	%	7.7	7.7	7.5	7.2	7.0	7.4
Capacity Utilization Rate	%	77.4	77.1	79.6	83.4	84.9	81.3
Private Housing Starts	mil. units	1.499	1.315	1.455	1.560	1.605	1.483
Car Sales	mil. units	8.5	8.5	8.9	9.8	10.2	9.4

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1505.6	1531.4	1544.6	1564.0	1580.7	1555.2
Index of Industrial Production	1967=100	151.6	156.8	159.4	163.1	165.8	161.3
Unemployment Rate	%	7.4	6.8	6.6	6.5	6.2	6.5
Capacity Utilization Rate	%	81.3	85.1	85.8	86.4	86.9	86.1
Private Housing Starts	mil. units	1.483	1.579	1.777	1.823	1.900	1.770
Car Sales	mil. units	9.4	10.1	10.6	10.8	11.0	10.6

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1555.2	1586.2	1608.4	1626.7	1638.6	1615.5
Index of Industrial Production	1967=100	161.3	167.3	170.2	173.8	175.9	171.8
Unemployment Rate	%	6.5	6.26	6.19	6.11	6.12	6.2
Capacity Utilization Rate	%	86.1	87.6	87.9	88.1	88.2	88.0
Private Housing Starts	mil. units	1.770	1.510	1.850	1.977	1.738	1.769
Car Sales	mil. units	10.6	10.2	10.6	10.9	11.0	10.7

increases are expected in paperboard containers.

Printing and Publishing. Growth is seen here, mainly in job printing, periodicals, books and cards.

Rubber and Plastics. Tires, innertubes and rubber products output will be at low levels in the first quarter, however, constant increments of growth are projected for the rest of the year. The forecast shows a 1.8 per cent increase in 1981 over 1980. For plastics, the gain expected is much more substantial: 6 per cent.

Chemicals and Products. Strong performance will be seen here in 1981, especially in basic chemicals, agricultural chemicals and synthetic materials. As measured by the IIP, the overall gain will be 7 per cent.

Ordnance and Accessories. Strong and steady growth throughout the year will occur. The gain in the IIP will be 10 per cent from the average of 78.0 in 1980 to the average of 85.9 in 1981.

Lumber and Products. Here, production will remain depressed, especially in the first quarter, due to the very low housing starts. The output will increase significantly in the second half of the year.

Clay, Glass and Stone Products. For the most of the year, the output in 1981 will be below the 1980 level. Again, slight improvement in the second half of the year will offset the dim and rocky aspects of the first part of 1981.

Primary Metals. Good news here. Vigorous growth is expected throughout the year. Considering the economy in general, perhaps one can think in terms of a medal for primary metals. Production of raw steel will gain from the expected level of 90.0 in 1980 to 110.0 in 1981, close to the 115.0 IIP level in 1979. The "winners" will be special steel products, pipes and tubes, and sheet and strip.

Nonelectrical Machinery. The expected December drop in orders is considered to be temporary. Demand will pick up early in 1981 and remain fairly strong. The gain in the IIP is expected to be 2 per cent over the prior year. Strength will be seen especially in farm equipment and metalworking machinery.

Electrical Machinery. Again, the news is pretty good. Strength is predicted for the following areas in particular: communication equipment, major electrical equipment and parts, and electronic components. As to household appliances, the gain will be moderate when compared to 1980. The IIP increase will be 3.1 per cent for electrical machinery.

Transportation Equipment. Everybody knows the American auto industry has been ailing--some of it from self-inflicted wounds. The forecast is not overly bright. Domestic production of motor vehicles and parts will show only a small gain over 1980 until the second half of 1981. Railroad equipment will remain at a low level with some small signs of gain in the autumn of 1981. However there is one bright spot in the sky: aircrafts and parts are expected to perform well throughout the year.

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

MONTH: DECEMBER 1980

TABLE 1.11 INDEX OF INDUSTRIAL PRODUCTION
AND COMPONENTS
(1967=100 SAAR)

INDUSTRY	1980 4	1981 1	1981 2	1981 3	1981 4	1980 Average	1981 Average
Mining	133.9	133.9	134.7	135.2	136.4	132.6	135.1
Utilities	171.6	172.4	173.6	174.7	175.6	170.2	174.1
Foods	150.3	150.2	151.4	153.1	153.9	149.2	152.2
Textile	134.3	134.0	137.6	138.2	139.4	136.8	137.3
Paper and Products	153.9	154.7	156.2	158.3	159.6	150.7	157.2
Printing and Publishing	142.3	142.1	143.7	144.6	145.9	139.3	144.1
Chemicals	213.4	214.5	219.8	224.3	226.7	206.9	221.3
Rubber and Plastics	263.4	264.8	265.7	268.4	271.1	256.8	267.5
Ordnance	80.2	82.9	84.4	86.7	89.5	78.0	85.9
Lumber	121.1	120.5	121.0	122.4	124.7	118.9	122.5
Furniture	147.5	147.0	148.8	150.2	151.0	149.6	149.3
Clay, Glass and Stone	144.4	143.9	142.7	143.8	145.6	146.0	144.0
Primary Metals	106.6	111.4	113.8	115.2	118.7	101.0	114.8
Fabricated Metal Products	134.5	137.2	138.4	140.1	146.9	134.9	140.7
Nonelectrical Machinery	161.9	162.7	163.0	165.2	167.8	162.2	164.7
Electrical Machinery	171.7	175.4	176.2	178.9	180.5	172.5	177.8
Transportation Equipment	119.8	117.5	115.4	117.6	118.4	116.5	117.2

REAL GROWTH

As was indicated in the Overview section, KEDI anticipates growth of real GNP to be 1.7 per cent in 1981 as compared to 1980. (See Table 1.10 on page 8.) The first quarter will be a mixture of ups and some downs. After that more balanced growth will take place in part due to interest rates moving downward.

Business confidence will remain strong in 1981. The Commerce Department survey on capital spending plans showed that inflation adjusted spending will go up by 2.5 per cent in the first half of 1981 over the last half of 1980. That is in line with KEDI's projection of 2.9 per cent increase in real business capital outlays in 1981 over 1980. The Administration's attitude has helped to boost business confidence a bit.

Preliminary numbers for December, 1980, show some declines in production took place. This was mainly due to the high interest rates and tight Federal Reserve policy. That downward movement is considered here to be temporary. The assumption is maintained that interest rates will decline early this year and keep moving downward throughout 1981. Also, the Federal Reserve will relax its monetary policies.

The renewal of consumer confidence is expected to take place later in 1981, after the anticipated drop in interest rates affect the consumers' loans and mortgages.

In 1981, the foreign trade will be a stabilizing factor for the economy. Substantial increases in grain exports will help to improve the U.S. balance of trade and balance of payments, and to offset the fuel imports. The projection

shows the export surpluses for all quarters of the year and the stable position of the dollar in international markets.

KEDI anticipates positive impact of the new Administration's policy on developments in the economy in 1981 and following years. The long-term projection shows that in 1981 not too much can be done - except to prevent the things from getting worse before they will start getting better. In the projection of this Institute, the stabilizing and growth effects of the Administration's combined tax and budget cutting policies, and removals of unnecessary regulations will start affecting the economy no earlier than 1982 and following years.

The KEDI forecast of an unbalanced development in the economy at the beginning of 1981 is documented by the mixed bag of good and bad news.

In November, orders for durables gained by 0.9 per cent, seasonally adjusted. That was the third month of gains, but it was lower than the previous increases. The slowing is attributable to the consequences of the high interest rates. Much of the November gain was due to new orders in the aircraft industry.

New orders for nondefense capital goods went up by 5.4 per cent in November from the prior month. That is an indication of future spending and strength.

In November, the trade gap shrank as oil import volume went down to the lowest level in over four years. The trade deficit was an adjusted $1.66 billion in November. The deficit for the first 11 months of the year was $29.48 billion. Looking on the bright side, that was $3.74 billion lower than the comparable 1979 deficit. On a balance-of-payments basis, there was only a modest deficit

REAL GROWTH

in 1979, and officials report there could be a surplus this year. That would be the first since 1976.

Leading economic indicators rose by 1.2 per cent in November. That was the sixth month of increases.

Retail sales went up a seasonally adjusted 1.6 per cent in November. That again, was the sixth month of gains, but it was mild. It is no surprise that gasoline service stations topped the list. Still, the steepness of interest rates will show some downward push on such sales in December and early 1981.

New factory orders increased again in November by 1 per cent, seasonally adjusted. KEDI anticipates that in December and in the first month or so of 1981, factory orders and output will show some decline, but they should move ahead again by spring given somewhat lowered interest rates which are forecast here.

According to preliminary data, construction spending also went up a bit in November. The month-to-month increase was 2.5 per cent. Private spending gained while public spending fell. Still, it must be remembered that such spending was generally down significantly when the pattern for 1980 is compared to 1979.

The mild good news just covered comes to an end as the reporting of the negative data commence.

REAL GROWTH

Automobiles come to the finish line first. Sales of cars in the first part of December were down by 7.5 per cent from the year-earlier total. On an adjusted basis, sales were about 6.7 million units at an annual rate. The reader is referred to Table 1.10 for forecast data on car sales on page 8.

In late December, it was reported that during 1980, there were 6.3 million autos built by U.S. factories. That was a decline of 25 per cent from the level of 1979 and the lowest total since 1961.

The survey of consumer confidence by the Conference Board in December showed a drop in its index after six months of gains prior to that time. Also, the index of buying plans showed a decline in plans to buy cars and major appliances.

Retail sales in November did not show much strength at all. The 1.6 per cent adjusted gain was lower than what was expected. High interest rates, the late Thanksgiving date, and inflation were all mentioned by retailers as being responsible for the slight growth on a yearly comparison basis.

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

MONTH: DECEMBER 1980

TABLE 1.12 GROSS NATIONAL PRODUCT
AND COMPONENTS
(bil. 1972 $, SAAR)

	1980	1981				1981
	4	1	2	3	4	Average
Gross National Product	1484.3	1486.7	1496.7	1510.4	1528.6	1515.6
Personal Consumption Expenditures	937.7	939.7	945.5	948.6	959.4	948.2
-Durables	132.8	130.9	132.1	134.0	136.8	133.4
-Nondurables	359.0	361.6	363.8	364.4	369.2	364.7
-Services	445.9	447.2	449.6	450.2	453.4	450.1
Gross Private Domestic Investment	199.6	198.7	202.8	213.6	218.6	208.4
Nonresidential	157.2	156.1	158.4	164.8	167.5	161.7
Residential	40.1	39.8	41.0	44.6	46.2	42.9
Change in business Inventories	2.3	2.8	3.4	4.2	4.9	3.8
Net Exports	58.9	59.2	58.8	57.2	59.0	58.5
Exports	162.0	163.0	164.1	165.4	168.3	165.2
Imports	103.6	103.8	105.3	108.2	109.3	106.7
Federal Government Expenditures on Goods and Services	106.2	106.4	106.9	107.1	107.0	106.9
State and Local Expenditures on Goods and Services	181.0	182.6	183.1	183.9	184.6	183.6

1.2 PRICES

(Tables 1.20, 1.21, and 1.22 on pages 21, 22, and 23)

The forecast remains basically unchanged. The slight changes have been caused by routine revisions due to the recently released price data for November, 1980, and preliminary data for December.

The long-term outlook as measured by year-to-year percentage changes in the Consumer Price Index follows:

1980: +13.5

1981: +12.4

1982: +10.8

1983: +10.9

1984: +11.1

1985: +11.0

There are no dramatic declines in that list. KEDI has always predicted high inflation rates and often higher than many forecasters have been willing to predict. This Institute has been quite accurate over the years in this area. It is only recently that some forecasters are starting to include long-term, double-digit inflation in their outlooks.

A poll reported in The Wall Street Journal on December 24 of business leaders showed the majority thought inflation would be 10 per cent or less in a year and under 8 per cent in three years. As can be seen here, such executives are way too inclined to the "optimistic" view.

The new Administration cannot make miracles. The main obstacles to efforts to slow down inflation are built deep in the economy. They are structural and cannot be removed in a short time without bringing down the whole house so-to-speak.

Some of these structural features are: high wage rates in labor contracts, and the norm of high white collar and managerial wage gains in recent years, low productivity of labor, ever increasing costs of energy, and the growth in spending by the Federal Government. These are realities. The Administration cannot do anything about them in the short-run.

For one example, to document the KEDI view, the trend of consumer prices in November makes the point. Prices in that month went up by 1 per cent or a simple annual rate of 12 per cent which is the same as the rate in the prior two months. The November gain reflected the climbing mortgage interest rates, higher food prices, and a sharp jump in used car prices and gasoline prices. None of these are going to decline. The KEDI outlook for consumer prices for selected items in 1981 as compared to 1980 is:

Meat	+15 to 20%
Housing	+11%
Fuel oil	+18%
Gasoline	+25%
Medical care	+14%

During 1981, there will be some slowdown in the gains in prices in the first months of the year. It would be wishful thinking to hope that will be the start of a new trend to lower inflation. The upward trend will resume again.

In the Consumer Price Index, energy items will play a very major role as they have in recent years. The price of gasoline is expected to increase from the present range of $1.20 - $1.25 for a gallon upwards toward $1.60 or even $1.80 as was stated in the last issue. Such a view is confirmed by a congressional analysis which predicts increases of up to 45 cents by this summer due to the added pressure brought on oil by the Iran-Iraq conflict.

The KEDI forecast for gasoline prices assumes the OPEC price varies little in its level per barrel this year, and domestic price deregulations proceed. In mid-December, it was announced that OPEC hiked the price ceiling on a barrel to $41. That, by itself is likely to add three to five cents to the price of a gallon of gas at the pump. (Current barrel prices are about $2 or $3 below the OPEC ceiling.) The increase in the ceiling and its rippling effect down to our fuel tanks is expected to add about 0.5 per cent to the inflation rate according to speculation in the industry. The forecast here is not affected as for almost a year KEDI has incorporated such data into the model.

The rise in gasoline prices comes in the face of large stocks of it and declining comsumption. During the first 11 months of 1980 gasoline use was down by 7 per cent from the 1979 level and that was 18 per cent below 1978. Clearly, many Americans have been driving less.

Another area of large increases will be in meat prices. Some consumers may still have trouble adjusting to a sign that says "ground beef, sale price $1.29 per pound" while the more future-shock adjusted person sees it as a real bargain.

The Agriculture Department estimates that meat consumption on a per capita basis will decline by 3 per cent this year. Pork has been given most of the blame as supplies there will decline and prices will jump by 25 per cent or more in 1981. The Agriculture Department estimates that beef will gain by 16 per cent and the price of chicken will go up by 20 per cent. Those recently published estimates are again in line with forecasts that have been maintained here for quite some time. (It is likely that the sale of vegetarian cook books will rise.)

Producers' prices are expected to trail the consumer prices:

1981, +14.1% from the 1980 level;

1982, +10.3%

1983, +10.5%

1984, +12.3%

1985, +13.1%

The decline in December, 1980, in the prices of raw materials and some products is seen by this Institute as a temporary one. The projection here shows that prices will start to go up again in the second quarter of 1981 and continue to climb for the remainder of the year. The reader is referred to table 1.20 on page 21.

It is expected here that farmers' prices will be firm in 1981. The high demand from abroad will contribute to this.

KEDI expects that average gains for prices in 1981 from the level in 1980 will be as follows: corn, up by 15 per cent; winter wheat, by 10 per cent; spring wheat, by 12 per cent; and soybeans, by 16 per cent.

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1980:4	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	256.1	263.0	273.6	281.7	288.9	276.8
Producer Price Index, NSA	1967=100	279.5	295.3	302.1	308.5	315.2	305.3
Implicit GNP Price Deflator	1972=100	182.9	186.7	190.4	194.2	197.7	192.3
Gross National Product	bil. $	2714.8	2775.7	2849.7	2933.2	3022.0	2895.2
Personal Consumption Expenditures	bil. $	1717.4	1761.3	1803.4	1841.9	1889.0	1823.9
Gross Private Dom. Investment	bil. $	406.1	411.8	431.2	466.3	487.4	449.2

Indicator	Unit	1982	1982				1982
			1	2	3	4	
Consumer Price Index, NSA	1967=100	276.8	297.0	302.1	310.2	317.7	306.8
Producer Price Index, NSA	1967=100	305.3	323.6	331.5	341.6	350.4	336.7
Implicit GNP Price Deflator	1972=100	192.3	201.1	204.7	208.9	212.7	206.9
Gross National Product	bil. $	2895.2	3079.6	3161.8	3267.2	3362.1	3217.7
Personal Consumption Expenditures	bil. $	1823.9	1950.4	1979.7	2051.4	2109.6	2027.8
Gross Private Dom. Investment	bil. $	449.2	509.6	539.8	556.7	579.1	531.3

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Consumer Price Index, NSA	1967=100	306.8	325.4	338.4	345.1	351.6	340.1
Producer Price Index, NSA	1967=100	336.7	359.6	367.1	376.8	384.9	362.8
Implicit GNP Price Deflator	1972=100	206.9	217.6	222.9	228.7	234.9	226.0
Gross National Product	bil. $	3217.7	3451.6	3585.1	3720.3	3849.1	3651.5
Personal Consumption Expenditures	bil. $	2027.8	2144.5	2209.3	2273.8	2337.4	2241.3
Gross Private Dom. Investment	bil. $	531.3	627.4	648.7	681.4	681.4	668.2

* Historical Data

KENT ECONOMIC AND
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MONTH: DECEMBER 1980

TABLE 1.21 GROSS NATIONAL PRODUCT
AND COMPONENTS
(bil. $, SAAR)

	1980	1981				1981
	4	1	2	3	4	Average
Gross National Product	2714.8	2775.7	2849.7	2933.2	3022.0	2895.2
Personal Consumption Expenditures	1717.4	1761.3	1803.4	1841.9	1889.0	1823.9
-Durables	212.7	215.1	220.7	229.0	239.5	226.0
-Nondurables	686.5	705.9	719.5	731.9	740.9	724.6
-Services	818.2	840.3	863.2	881.0	908.6	873.3
Gross Private Domestic Investment	406.1	411.8	431.2	466.3	487.4	449.2
Nonresidential	303.6	307.2	317.8	339.0	350.1	328.5
Residential	91.2	92.2	96.9	108.2	115.0	103.1
Change in business Inventories	11.3	12.4	16.5	19.1	22.3	17.6
Net Exports	49.9	49.9	52.9	50.0	59.9	53.2
Exports	348.1	354.9	363.2	370.7	386.4	368.8
Imports	301.8	305.0	310.3	320.7	326.5	315.6
Federal Government Expenditures on Goods and Services	193.4	195.4	197.6	199.3	202.1	198.6
State and Local Expenditures on Goods and Services	348.0	357.3	364.6	375.7	383.6	370.3

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

MONTH: DECEMBER 1980

TABLE 1.22 GROSS NATIONAL PRODUCT AND COMPONENTS-IMPLICIT PRICE DEFLATORS
(1972=100, SAAR)

	1980	1981				1981
	4	1	2	3	4	Average
Gross National Product	182.9	186.7	190.4	194.2	197.7	192.3
Personal Consumption Expenditures	183.2	187.4	190.7	194.2	196.9	192.4
-Durables	160.2	164.3	167.1	170.9	172.6	168.8
-Nondurables	191.2	195.1	197.8	200.9	202.9	199.2
-Services	183.5	187.9	192.0	195.7	199.6	193.8
Gross Private Domestic Investment	203.4	207.2	212.6	218.3	223.0	215.4
Nonresidential	193.1	196.8	200.6	205.7	209.0	203.0
Residential	227.4	231.6	236.3	242.5	248.9	239.8
Change in business Inventories						
Net Exports						
Exports	215.1	217.7	221.3	224.1	239.6	223.2
Imports	291.2	293.8	294.7	296.4	298.7	295.9
Federal Government Expenditures on Goods and Services	182.1	183.6	184.8	186.1	188.9	185.9
State and Local Expenditures on Goods and Services	191.3	195.7	199.1	204.3	207.8	201.7

1.3 EMPLOYMENT AND LABOR
(Table 1.30 on page 25)

Some economists predict higher unemployment rates to prevail in 1981. KEDI does not share that view.

The prediction here is for some increases in the first quarter and then declines throughout the rest of the year. In the first quarter, the unemployment rate will change a bit from the present rate of 7.6 up to 7.7-7.8 per cent. After that, it will begin to edge downward and end the year at 7.4 per cent.

Declines in unemployment are expected in the following industries: construction, chemicals, steel, paper, rubber, lumber, clay and glass, and housing. The rate of unemployment will still remain at high levels by historical standards.

The forecast shows a better employment outlook for mining (especially coal), food, electrical and nonelectrical machinery, petroleum products, aircraft, aerospace, and ordnance.

The following industries will remain essentially the same. No substantial declines or gains in the numbers of employed are expected in fabricated metal products, aluminum and copper, paper and board, leather and products, and printing and publishing.

Employment in the automobile industry is not expected to show any gains before the third quarter of 1981.

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980:4	1981				1981
			1	2	3	4	
Population	mil.	224.1	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	106.0	106.6	107.0	107.8	108.5	107.5
Employed	mil.	97.9	98.4	98.9	100.0	100.9	99.6
- Agriculture	mil.	94.6	95.1	95.6	96.6	97.6	96.3
- Non Agriculture	mil.	3.3	3.3	3.3	3.4	3.3	3.3
Unemployment Rate	%	7.66	7.69	7.53	7.21	6.99	7.36

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.7
Civilian Labor Force	mil.	107.5	109.1	109.9	110.7	111.6	110.3
Employed	mil.	99.6	101.7	102.6	103.5	104.6	103.1
- Agriculture	mil.	3.3	3.4	3.4	3.4	3.3	3.3
- Non Agriculture	mil.						
Unemployment Rate	%	7.36	6.80	6.62	6.48	6.23	6.53

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Population	mil.	229.7	232.3	233.8	235.1	236.5	234.4
Civilian Labor Force	mil.	110.3	112.4	113.6	114.6	115.5	114.0
Employed	mil.	103.1	105.4	106.6	107.6	108.4	107.7
- Agriculture	mil.	99.8	102.1	103.2	104.2	105.0	103.6
- Non Agriculture	mil.	3.3	3.3	3.4	3.4	3.4	3.4
Unemployment Rate	%	6.53	6.26	6.19	6.11	6.12	6.17

* Historical Data

Over the long-term, the unemployment rate is not expected to drop below 7 per cent until 1982. The yearly average of the per cent of the civilian labor force out of work is calculated here to be as follows:

1980	7.22
1981	7.36
1982	6.53
1983	6.17
1984	6.04
1985	6.15

The forecast for the average workweek in 1981 is 35.5 hours. By quarters, it shows a slight downward move at first and then a slight upward movement for the remaining quarters. Quarterly averages are: 1st, 34.8 hours; 2nd, 35.3; 3rd and 4th, 35.6.

1.4 HOUSING
(Table 1.40 on page 28)

The prediction by this Institute of housing starts in 1981 shows that they will gain by approximately 8 per cent from the expected 1980 performance. Housing starts in 1981 are projected to total 1.483 million units, assuming mortgage rates decline. A substantial drop is anticipated in both December of 1980 and January of 1981. Single-family housing starts will not improve much before the third quarter of 1981 while the multifamily units will show steady growth from the second quarter.

Calculations show that if the 15 per cent mortgage rate remains throughout the first half of 1981, then housing starts will drop below the 1 million level. That would be about 55 per cent below the 2 million starts level that existed in 1977 and 1978.

The KEDI forecast shows that a 15-16 per cent mortgage rate will prevail at the start of 1981. It will not begin to decline before March. A more bearable level of 12-13 per cent will not be reached any earlier than the middle of the year.

The forecast concerning housing permits presents a similar picture. KEDI anticipates that the number of permits issued will be roughly 10 per cent higher in 1981 than in 1980. That is, of course, with the assumption that mortgage rates drop from the present high levels.

The median sales price of a home this October was at $65,700. That was about 5.5 per cent above the year earlier figure. In Southern California, the average cost was $85,800. (In Anaheim, it reached $160,000.) The median price of a home in December of 1980 is calculated by KEDI at $65,100.

The projection here for the end of 1981 is $69,800. That is a bit of good news. That is, the average price of a new home will not follow the inflation rate in 1981. It is expected that the average price will gain by about 7 per cent while inflation is a projected 12.4 per cent.

TABLE 1.40 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980:4	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil.	.950	.853	.947	1.006	1.037	.960
Multifamily Housing Starts	mil.	.549	.462	.508	.554	.568	.523
Mobile Home Shipments	mil.	.195	.204	.236	.267	.261	.242
Housing Permits Issued	mil.	1.276	.983	1.054	1.236	1.105	1.094
Construction Costs-Commerc.	1972=100	205.7	205.2	210.3	215.8	221.7	213.3
Construction Costs-Resident.	1972=100	206.3	204.8	209.1	213.1	219.8	211.7

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Single-Family Housing Starts	mil.	.960	.936	1.059	1.087	1.216	1.075
Multifamily Housing Starts	mil.	.523	.643	.718	.736	.684	.695
Mobile Homes Shipments	mil.	.242	.238	.259	.278	.271	.262
Housing Permits Issued	mil.	1.094	1.002	1.210	1.347	1.196	1.187
Construction Costs-Commerc.	1972=100	213.3	226.3	231.5	237.3	243.5	234.7
Construction Costs-Resident.	1972=100	211.7	224.1	228.7	234.8	241.3	232.2

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Single-Family Housing Starts	mil.	1.075	.924	1.126	1.158	1.043	1.063
Multifamily Housing Starts	mil.	.695	.586	.724	.819	.695	.706
Mobile Homes Shipments	mil.	.262	.253	.289	.314	.278	.284
Housing Permits Issued	mil.	1.187	1.189	1.367	1.423	1.186	1.291
Construction Costs-Commerc.	1972=100	234.7	249.1	256.5	262.8	267.3	258.9
Construction Costs-Resident.	1972=100	232.2	246.5	253.1	259.7	266.1	256.4

* Historical Data

Whereas, housing starts are not expected to pick up much before the third quarter, the slight rebound in the sales of houses is expected earlier than that. KEDI projects some significant increases in home sales starting in the second quarter of 1981.

The forecast of mobile home shipments does not have any particular good news for 1981. However, 1982 will show some positive growth.

1.5 GOVERNMENT BUDGETS

(Table 1.50 on page 30)

The projection of the Federal Budget includes the new Administration's proposal of a $22 billion tax cut in 1981 and about $15 billion wrestled out of expenditures. Calculations show the Federal deficit will be in the range of $50 billion for calendar 1981. The outlook for 1982 and 1983 show some decrease in the deficit. However, no balanced Federal budget is foreseen here between 1981 and 1985.

That view is more pessimistic (and more realistic) than the original intention of the new Administration. They publicized a goal of a balanced budget by fiscal 1983. That is about as likely as a return to the 3 per cent rate of inflation that was more the rule way back.

The projection of State and Local Governments budgets presents a different picture. Steady surpluses are shown for 1981 and following years.

TABLE 1.50 FEDERAL AND STATE
AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980:4	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	264.3	271.2	281.6	288.7	295.6	284.3
Corporate Profit Tax Accruals	bil. $	72.4	74.6	77.3	80.5	83.4	79.0
Surplus./Deficit	bil. $	-56.7	-60.4	-53.6	-49.3	-48.1	-52.9
State and Local Governments:							
Income Taxes	bil. $	41.2	42.0	42.9	44.3	45.0	43.6
Corporate Profit Tax Accruals	bil. $	14.1	14.9	15.8	16.8	17.5	16.3
Surplus./Deficit	bil. $	24.5	24.4	23.0	23.6	24.1	23.8

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	284.4	308.7	317.5	326.3	334.7	321.8
Corporate Profit Tax Accruals	bil. $	79.0	86.8	90.3	94.5	97.8	92.4
Surplus./Deficit	bil. $	-52.9	-45.1	-40.2	-38.7	-36.5	-40.1
State and Local Governments:							
Income Taxes	bil. $	43.6	46.2	47.3	48.7	49.9	48.0
Corporate Profit Tax Accruals	bil. $	16.3	18.4	20.0	21.5	22.7	20.7
Surplus./Deficit	bil. $	23.8	24.9	25.8	26.7	27.3	26.2

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	321.8	341.2	353.4	365.8	377.5	359.5
Corporate Profit Tax Accruals	bil. $	92.4	101.6	105.4	110.8	116.3	108.5
Surplus./Deficit	bil. $	-40.1	-30.4	-28.7	-26.5	-22.4	-27.0
State and Local Governments:							
Income Taxes	bil. $	48.0	49.7	51.3	53.4	55.6	52.5
Corporate Profit Tax Accruals	bil. $	20.7	23.6	24.8	25.1	26.4	25.0
Surplus./Deficit	bil. $	26.2	28.2	28.4	27.8	27.0	27.9

* Historical Data

1.6 INCOME
(Table 1.60 on page 32)

Misleading news flash: Personal Disposable income is projected to be 13.2 per cent higher in 1981 than in 1980. Objective news addition: When adjusted by the inflation rate expected and measured on a per capita basis, it shows a decline of approximately 0.4 per cent. The same is true for 1982. By KEDI calculations, there will be some positive developments in this area (the first in four years) in 1983. At that time, adjusted Personal Disposable Income will grow by 0.8 per cent. In 1984 that growth percentage will be 1.1 and in 1985 it will gain a bit more to a 1.3 per cent rate.

The forecast of corporate profits present a positive trend. In the third quarter of 1980, corporate after-tax profits increased to an adjusted rate of $159.1 billion and in the fourth quarter another small increase is expected as they reach a $163.2 billion annaul rate. Some slowing in the rate of increase is expected in the first quarter of 1981, but a more substantial resumption will occur in the following quarters. (As was mentioned, due to Commerce Department December revision of decades of economic data, all tables are changed here and are not comparable to prior issues.) See table 1.60 on page 32 for corporate profits.

In 1981, the average weekly nonagricultural earnings will grow from $302.50 in the fourth quarter of 1980 to $313.70 in December of 1981. Again, when adjusted for inflation, the erosion of purchasing power of earning is seen.

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980:4	1981				1981
			1	2	3	4	
Personal Income	bil. $	2250.3	2298.4	2358.8	2408.9	2467.9	2383.5
Personal Dispos. Income	bil. $	1930.9	1934.3	1983.5	2025.6	2077.3	2005.2
Compensation of Employees	bil. $	1841.2	1894.5	1959.3	2003.1	2054.2	1977.8
Corp. Profits After Tax	bil. $	163.2	170.4	178.9	188.5	199.4	184.3
Personal Saving	bil. $	118.4	120.6	126.3	128.1	130.5	126.4
Average Weekly Earnings	$	302.5	310.7	312.4	314.1	317.4	313.7

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Personal Income	bil. $	2383.5	2531.3	2605.2	2665.2	2738.8	2635.1
Personal Dispos. Income	bil. $	2005.2	2143.2	2196.5	2247.9	2307.8	2223.9
Compensation of Employees	bil. $	1977.8	2133.1	2207.4	2269.1	2342.5	2238.0
Corp. Profits After Tax	bil. $	184.3	206.7	214.5	223.8	234.7	219.9
Personal Saving	bil. $	126.4	132.4	134.5	130.1	128.4	131.4
Average Weekly Earnings	$	313.7	321.7	324.2	327.1	329.4	325.6

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Personal Income	bil. $	2635.1	2800.4	2881.2	2959.0	3036.9	2919.4
Personal Dispos. Income	bil. $	2223.9	2347.9	2420.9	2493.6	2557.3	2454.9
Compensation of Employees	bil. $	2238.0	2411.3	2490.7	2571.0	2647.3	2530.1
Corp. Profits After Tax	bil. $	219.9	242.1	253.8	264.1	276.8	259.2
Personal Saving	bil. $	131.4	130.1	133.2	136.7	134.3	133.6
Average Weekly Earnings	$	325.6	332.0	336.1	341.8	347.1	339.2

* Historical Data

Income

The long-term projection of this Institute indicates that, on the average, nonfarm payrolls will keep pace with inflation no earlier than 1983. (It is still a belt-tightening era.)

1.7 MONEY AND CREDIT
(Table 1.70 on page 34)

The KEDI forecast of growth in currency and demand deposits, MI-A, in 1981 shows a gain of 7.5 per cent over the average for 1980. That is moderate growth indicating that the Federal Reserve policy will remain rather tight throughout the year.

It is expected here that the Federal Reserve will relax its monetary and credit policies somewhat in early 1981. However, this relaxation will not be as total as that which took place in the April-June period of 1980.

It is anticipated that such mild relaxation will help the economy to avoid another credit squeeze. Given recent conditions, such an easing will hardly mean easy availability of credit.

The forecast here concerning commercial and industrial loans for 1981 shows a slight decline at the beginning of the year, slow growth in the second quarter, and a more significant surge in the latter half of the year. On the average, a 5.5 per cent increase over the previous year is expected. Consumer credit is expected to keep gaining moderately in 1981 without any drastic ups and downs.

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1980:4	1981				1981
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	385.6	394.5	402.6	415.7	421.2	408.5
Time Deposits, Adjusted, M2	bil. $	1620.1	1620.1	1632.4	1671.2	1698.7	1655.6
Consumer Instal. Credit	bil. $	310.7	318.5	325.1	330.1	340.8	340.8
Commerc. and Industr. Loans at Banks	bil. $	312.6	314.3	317.2	322.3	325.6	325.6
Negotiable Cert. of Deposits	bil. $	130.6	135.2	139.1	143.3	146.2	146.2
Mortgages at S & L Assns.	bil. $	496.5	499.3	504.3	512.7	519.6	519.6

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	408.5	427.4	436.7	448.6	456.1	442.2
Time Deposits, Adjusted, M2	bil. $	1655.5	1735.3	1754.6	1797.3	1845.7	1783.2
Consumer Instal. Credit	bil. $	340.8	345.2	350.3	357.7	367.4	367.4
Commerc. and Industr. Loans at Banks	bil. $	325.6	330.7	338.1	346.2	354.7	354.7
Negotiable Cert. of Deposits	bil. $	146.2	149.1	153.5	157.1	160.4	160.4
Mortgages at S & L Assns.	bil. $	519.6	522.4	527.3	534.3	538.7	538.7

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	442.2	462.5	470.3	475.3	479.7	472.0
Time Deposits, Adjusted, M2	bil. $	1783.2	1890.3	1936.2	1956.7	1964.8	1937.0
Consumer Instal. Credit	bil. $	367.4	386.5	391.9	395.4	400.7	400.7
Commerc. and Industr. Loans at Banks	bil. $	354.7	360.1	366.2	370.1	374.3	374.3
Negotiable Cert. of Deposits	bil. $	160.4	165.6	169.8	172.3	174.4	174.4
Mortgages at S & L Assns.	bil. $	538.7	541.2	546.5	551.9	557.3	557.3

* Historical Data

1.8 INTEREST RATES, YIELDS AND SECURITIES PRICES
(Table 1.80 on page 37)

The KEDI prediction of the developments in interest rates remains basically unchanged. It is felt here that interest rates have already peaked and will begin to decline early in 1981. This opinion is now widely shared by economists. Still, forecasters are widely split on the timing and the size of the declines in interest rates.

For instance, a Wall Street Journal sample of forecasts of the prime rate in 1981 showed the perceived high ranging from 20 to 30 per cent and the average for 1981 ranging from a low of 11½ to a high of 20 per cent.

A Gallup poll of the prime rate forecast of executives for the end of 1981 showed that 36 per cent of those with large firms clustered around the 10 to 11 per cent range as being likely. The second largest group (28 per cent of executives of large firms) viewed 12 and 13 per cent as the year-end prime rate. Just 10 per cent of those polled at big companies thought the rate would be 14 or 15 per cent.

A partner in Salomon Brothers, Henry Kaufman, predicted that interest rates would continue to rise and probably hit new highs in 1981.

A Bankers Trust Co. economist predicted declining interest rates as gaining speed fueled by a sharply falling economy in the first quarter of 1981. An economist at Fidelity Bank had another view: He predicted some fall in interest rates and then even higher rates early next year.

Interest Rates

KEDI predicts that in the middle of the year the prime rate will be 15-16 per cent. The Federal Funds rate will be 13-14 per cent, and the three-month Treasury bills rate will be 11-12 per cent. No further significant declines are expected for the rest of 1981.

At the present time, the U.S. interest rates are far above the average rates overseas. There is no indication that other countries will follow the lead of this nation and increase their interest rates. The wide gap, 4-6 per cent, between the U.S. and foreign rates cannot last for long. KEDI anticipates that the U.S. rates will keep moving downward until the world level is reached about the middle of the year.

Mortgage rates are expected to decline gradually starting in March and April of 1981. At the end of the year, the average mortgage rate on new homes is expected to drop down to a "more tolerable" 11.5 - 12.0 per cent.

The forecast of the stock market for 1981 shows no dramatic gains or declines. The stock market prices are expected to fluctuate mostly in the 880-960 range when measured by the Dow Jones Industrial average, or 115-130 as measured by Standard and Poor's 500.

In the long-term outlook going to 1985, no substantial declines in interest rates are foreseen. Calculations show no prime rates below 10 per cent and no mortgage rates below 9 per cent during that period.

TABLE 1.80 INTEREST RATES, YIELDS
AND SECURITIES PRICES

Indicator	Unit	1980:4	1981				1981
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	13.25	12.72	11.40	11.27	10.06	11.36
Prime Rate	%	16.74	17.65	16.54	14.36	14.15	15.68
Mortgage Rate, New Homes	%	15.26	16.21	15.79	13.25	12.71	14.49
Aaa Bonds Rate	%	12.78	13.04	12.47	11.89	11.63	12.26
Long Term Govt. Bonds Yield	%	12.23	12.98	12.25	11.61	11.16	12.00
Standard & Poor's 500 Average	1941-43 =100	134.59	131.26	131.14	133.27	130.15	131.46

Indicator	Unit	1981	1982				1982
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.36	10.14	10.02	9.95	9.87	9.95
Prime Rate	%	15.68	13.08	12.74	12.56	12.23	12.65
Mortgage Rate, New Homes	%	14.49	12.54	11.96	11.63	11.42	11.89
Aaa Bonds Rate	%	12.26	11.21	10.98	10.54	10.49	10.81
Long Term Govt. Bonds Yield	%	12.00	11.09	10.80	10.73	10.34	10.74
Standard & Poor's 500 Average	1941-43 =100						

Indicator	Unit	1982	1983				1983
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	9.95	10.16	10.21	11.43	12.89	11.17
Prime Rate	%	12.65	12.43	12.61	13.18	15.48	13.43
Mortgage Rate, New Homes	%	11.89	11.28	11.52	11.84	12.03	11.67
Aaa Bonds Rate	%	10.81	10.57	10.86	11.15	11.57	11.04
Long Term Govt. Bonds Yield	%	10.74	10.21	10.45	11.08	11.43	10.79
Standard & Poor's 500 Average	1941-43 =100	132.30	135.20	135.36	132.16	130.48	133.55

* Historical Data

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KEDI ECONOMIC SURVEY

U.S. ECONOMIC OUTLOOK FOR 1981

January 31, 1981

President: Vladimir J. Simunek

This monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, Student Center, KSU Campus, Kent, Ohio 44242, U.S.A. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

Editor and Assistant Writer: Diane L. Lewis

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1.01 OVERVIEW 1

KEDI's outlook remains optimistic. There is little change in the forecast for the years through 1984 that was presented in the last issue. Some revision for 1981 has been made with a slight reduction for growth expected in the second half of 1981. Less growth, more inflation, and a bit more unemployment are anticipated by KEDI for 1984 than has been forecasted by the Administration.

Evaluation of various plans show that the plan of the Reagan Administration is the most realistic alternative.

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There are some gains in business spending plans, and durable goods orders have been holding, which are both good signs.

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The estimate of the inflation rate as measured by the CPI is maintained here: 12.4 per cent increase in 1981. Price gains for chemicals, machinery, energy and food will be at the top of the list. (If you need to eat less to take off a few pounds, an added incentive might be the rising food prices--especially beef.)

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1.0 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

The forecast presented in the last issue for 1981 through 1984 remains basically unchanged.

1981. The economy will grow at a slow rate in the 1.6 per cent range. The first half of the year will be nearly flat. The second half will show increased economic activity. The inflation rate will be in the 12.4 per cent range. Interest rates will be high and the unemployment rate will decline a bit.

1982. The forecast here shows more improvement with an overall growth rate of 3.4 per cent. Business capital outlays, housing and car sales will be substantially higher than in the previous year. Interest rates will decline more than they had in the prior year. Inflation will be in the 11 per cent range and unemployment will again decline slightly.

1983. This year will show another gain in the rate of growth; 3.8 per cent is foreseen here. Interest rates will approach a more normal level and unemployment will be approximately 6 per cent. The inflation rate will remain at the level of 1982--around 11 per cent.

1984. Some slowdown in economic activity is foreseen, but no recession is anticipated. The inflation rate will remain in the double digit range. Unemployment will not change significantly. Some slight increases in the interest rates are expected.

1985. The economic activity will resume the upwards trend. The inflation will persist in the 10 per cent range. The unemployment rate will drop below 6 per cent. The interest rates will increase slightly. The KEDI forecast is highlighted in Table 1.0 on the following page.

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KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1980	1981	1982	1983
Gross National Product	bil. const. 72 $	1481.8	1506.5	1558.8	1714.2
Index of Industrial Production	1967 =100	147.0	151.9	161.5	185.8
Capacity Utilization	%	78.7	78.6	85.5	87.8
Unemployment Rate	%	7.2	7.5	7.2	6.5
Private Housing Starts	mil. units	1.317	1.370	1.557	1.894
Car Sales	mil. units	8.7	8.9	9.4	11.9
Implicit GNP Price Deflator	1972 =100	177.4	195.1	211.4	252.6
Consumer Price Index	1967 =100	246.7	277.1	308.4	432.8
Producer Price Index	1967 =100	269.8	306.6	343.1	472.6
Federal Deficit	bil. $	-64.1	-57.1	-36.6	-24.7
Personal Income	bil. $	2161.0	2436.4	2723.3	2827.1
Prime Rate	%	15.1	16.7	14.7	11.2
Mortgage Rate	%	13.0	13.8	12.9	10.8
Currency plus Demand Deposits	bil. $	377.4	394.9	421.8	528.6
Commercial and Industrial Loans	bil. $	313.6	335.4	354.2	432.7

To a large extent, KEDI agrees with views expressed by Walter E. Hoadley, chief economist for the Bank of America. He said, "Perhaps the best way to characterize the first quarter of 1981 is that after it is over, the only way for the economy to go will be up." He views 1981 as being a "somewhat better year" for the overall economy. (The Wall Street Journal, January 12, 1981)

Mr. Hoadley went on to indicate that inflation has become chronic in this country and that there is little chance for the overall rate to slow this year. That is a view that KEDI has been expressing for quite some time. It is only recently that other economists have begun to express that view. The forecast here for double digit inflation for the next five years is unchanged.

Starting in November of last year, this Institute has maintained the assumption of tax cuts amounting to 30 per cent spread over three years and an acceleration in depreciation allowances of approximately 40 per cent.

Looking ahead to 1984 and comparing the outlook calculated here with that of the Carter and the Reagan Administration shows that KEDI expects inflation to be higher, growth to be lower, and unemployment to be a bit higher than either of them.

Three Projections of 1984:

	Rate of Growth over 1983	Unemployment rate	Inflation rate
Reagan Administration	4-5%	below 6%	5%
Carter Administration	3.7%	5.5%	7%
KEDI	3.4%	6.0%	11%

In commenting on President Reagan's economic projections and proposals, Walter Heller spoke of the combination of large tax cuts and tighter money as being contributors to higher interest rates and inflation and detractors from economic growth.

Otto Eckstein of Data Resources Inc. viewed the Reagan package as one that was a gamble with the economy as the bet. Lower government revenues may or may not be offset by growth the tax cuts would aid.

Michael Evans of Evans Economics Inc. expressed the view that an 8 per cent inflation rate is possible by 1984. A lower rate than that was not forecasted by Evans.

Alan Greenspan of Townsend-Greenspan & Co., and one of the designers of the Reagan plan, testified before the Senate Appropriations Committee that the Administration feels both inflation and interest rates would be dramatically reduced if tax rates and government spending are cut.

This Institute does not agree with the possibility of any "dramatically reduced" inflation and interest rates. There are several reasons:

1. The roots of inflation are deeply entwined with the productivity of labor. It is not improving.
2. The prices paid for energy will continue to gain.
3. The U.S. economy is not some cut-off tropical island. (Although some of us might like to be on one.) It is an integral part of the world economy. Projections show that there will be inflation

averaging 10 per cent a year for each of the next 5 years on the planet we call earth. It is not possible for the this nation to have a 5 per cent inflation rate in this setting.

The degree of success of the Reagan plan is regarded here as depending on three main factors: First, the psychological factor as to whether or not he is able to persuade the public that his plan will work; secondly, ability to reduce the Federal deficit on roughly $15 billion in 1984; and thirdly, the expected tax cuts for business and the accelerated depreciation really sparking productivity starting in 1982.

Calculations at this Institute show that the total 30 per cent tax cuts in personal income tax will have NO DRAMATIC EFFECT. The cuts will prevent substantial gains in the burden of taxes we bear in coming years, but there is not any way that the cuts would mean a significantly lower taxation of income, given the inflation rate and increasing social security taxes. Comparison of the projection with the proposed tax cuts and accelerated depreciations for businesses, and the projection without these increases shows, that the Administration's proposals are very viable and may substantially contribute to improve the performance of the economy.

What is the evaluation then by KEDI of the Administration proposals? Given the situation, there is support here for them as they are indicated as the most realistic alternative. However, the expectations of the results of the proposals are too high. That is, enacting the proposals

will not result in cutting inflation and unemployment to the extent that the Administration indicates.

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the December, 1980 issue, the changes concern the updates of Assumptions No. 1, 4, 6, and 7.

1. In 1985, all U.S. demands for oil should be met. The weighted price of oil in 1981 will go up to the $40 range. In 1982, it is expected the price will go up to $46, in 1983, to $57 per barrel. In 1984, to $63 per barrel, and in 1985, to $72 per barrel.

2. It is expected, that the Mid East crisis will continue throughout this and the next year, and more normal economic situations, including a significant resumption in the area's of oil exports, will take place not earlier than in 1983.

3. Some relaxation of tight monetary policy and drops from record high interest rates will take place early in 1981. However, high interest rates and restrictive monetary and credit policies will prevail in 1981 and 1982.

4. It is assumed that in 1981 the new Administration will adopt a definite program in fighting the inflation. The Federal Reserve Board will, at long last, begin a policy of setting limits to the monetary growth by long-term commitments, not just short-term as has been the policy in the past. Price and wage controls must remain the last resort of stabilization

policy. The tax cut of $20 billion for the year 1981, and the budget cut of $15 billion will be adopted.

5. Our foreign trade with China will gain a substantial momentum in 1981 and following years.

6. In 1981 and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 will bring record crops.

7. It is projected here that the rates of growth in 1981-84 in the major industrial countries will be as follows for real GNP:

	1981	1982	1983	1984
West Germany	1.2%	1.6%	2.3%	3.1%
Japan	1.5%	2.1%	3.0%	3.5%
Italy	1.3%	1.8%	2.5%	2.8%
Great Britain	1.2%	1.9%	2.3%	2.6%
France	1.8%	2.4%	2.7%	2.8%

8. No drastic changes in existing international relationships are assumed in this forecast.

1.10 REAL GROWTH

(Table 1.10 on page 11)

In real terms, the forecast for the year remains the same. During 1981, the economy will start with a generally weak performance. By the second part of the year, the growth that began in a few industries in the earlier part of the year will spread to most industries. The scenario on a quarterly basis follows.

First Quarter. There will be a weak showing and declines in many industries--particularly in autos, housing, construction, appliances, mobile homes, retail trade, furniture, textiles, apparel, paper and utilities. Slow growth is forecast here for rubber, steel, primary metals, electrical and nonelectrical machinery, food, and petroleum products industries, It is anticipated that there will be strong growth in chemicals, plastics, ordnance and accessories, mining, aircraft and aerospace.

Second Quarter. The projection here by KEDI shows substantial improvements in the producer's durables sectors of steel, nonelectrical machinery, and primary metals. Improvements in rubber, paper, and food industries are expected.

Third and Fourth Quarters. The forecast here shows more balanced growth during this part of the year than in the first half. Housing, construction, retail trade, and petroleum products will pick up. The automobile industry will begin to recuperate some. It is anticipated that strong performance will continue in electrical machinery, defense, aircraft and aerospace industries, mining, chemicals, plastics, primary metals, and that there will be further improvements in the steel industry.

Looking at the first quarter of 1981 and comparing it with the fourth quarter of 1980 shows that in general the performance will be slightly lower than had been expected here prior to this issue. Although KEDI

was closer to the mark than other forecasters in the projection of GNP for the fourth quarter of 1980, still the preliminary data coming out of Washington indicates there was a bit more strength than had been forecast here. Hence, by comparison, the first quarter of this year will appear to be lower.

There are other factors that have been adding some slight downward nudges on the estimates here for the first quarter. First of all, the weather has been more severe and for a longer period than is average for this season of the year.

There have been additional cuts in the production plans in the automobile industry. Officials announced that eleven plants would be closed at the end of January to help reduce inventories. That meant that just over 33,000 workers would be laid off for at least a week in this weak industry. Even, the Toyota plant that makes truck beds in California was to be closed for two weeks because of lackadaisical light truck sales. (Toyota blamed the closing--its first--on the jump in the U.S. tariff on imported cab-and chassis units.)

Another factor has been uncertainty over the plans of the new Administration and the degree of acceptance of the plans in the Congress and the banking community. Manufacturers will be witholding new orders to a large extent until it is more clear as to what the Administration plans to do and is able to get done. It is understandable that ordering some equipment now that could wait a few months when it might be subject to faster

depreciation or higher tax credits is distorting the data on new orders for the first months of this year.

Regarding consumer attitudes, it is not expected that they improve any earlier than in the second quarter. During the second part of this year, they will be more positive about their own economic future and that of this country. KEDI expects that the tax cut of 30 per cent in 1981 through 1983 will be enacted. The positive impact of that will begin to be seen in the latter part of this year.

The calculations of this Institute for the first part of 1981 have been supported by January developments. For one thing, retailers indicated in mid-January that they expect sales to be sluggish during the first half of the year. The second part of 1981 is viewed by retailing analysts as showing only moderate improvement. Inflation weary and wary citizens are seen as being fairly tight with their few coins and shrinking dollars. Also, the sluggish recovery likely in the housing industry is not viewed as much of a stimulus to the sales of household durables.

The most recent survey by the government of business spending plans indicate that there will be very slight gains in this area. Spending plans when adjusted for inflation are forecast to gain about 1 per cent over the 1980 level. In 1980, such spending was down 0.5 per cent from the prior year.

The increase in orders for durable goods in December--up 1.9 per cent over the November level on an adjusted basis--does add credence to the

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TABLE 1.10 REAL GROWTH
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1481.8	1488.1	1496.8	1511.8	1529.2	1506.5
Index of Industrial Production	1967=100	147.0	149.4	151.0	152.5	154.5	151.9
Unemployment Rate	%	7.2	7.8	7.6	7.5	7.4	7.5
Capacity Utilization Rate	%	78.7	76.4	77.1	79.2	81.8	78.6
Private Housing Starts	mil. units	1.319	1.140	1.435	1.434	1.474	1.370
Car Sales	mil. units	8.7	8.5	8.9	8.9	9.4	8.9

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1506.5	1533.2	1546.9	1568.1	1586.9	1558.8
Index of Industrial Production	1967=100	151.9	156.9	159.7	163.4	165.9	161.5
Unemployment Rate	%	7.6	7.4	7.3	7.1	7.1	7.2
Capacity Utilization Rate	%	78.6	83.5	85.2	86.4	86.9	85.5
Private Housing Starts	mil. units	1.370	1.360	1.562	1.687	1.620	1.557
Car Sales	mil. units	8.9	9.0	9.3	9.6	9.5	9.4

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Gross National Product, 1972 $	bil. $	1558.8	1591.3	1611.9	1630.2	1640.1	1618.4
Index of Industrial Production	1967=100	161.5	167.5	170.3	173.9	176.1	172.0
Unemployment Rate	%	7.2	6.9	6.9	6.8	6.6	6.8
Capacity Utilization Rate	%	85.5	87.3	87.6	88.1	88.2	87.8
Private Housing Starts	mil. units	1.557	1.449	1.691	1.793	1.675	1.652
Car Sales	mil. units	9.4	9.4	9.8	9.6	10.3	9.8

* Historical Data

view that some growth is going on out there. Much of that month's increase was in the defense sector. The percentage is a preliminary one and is frequently revised quite a bit due to many companies delaying their reports because of the scramble of getting books in order at the end of the year. New orders for nondefense capital goods were calculated to have moved down by 0.2 per cent from the November level.

Support for the outlook that has been maintained by this Institute for some time is also seen in the comments of economists that more and more are voicing the view that the first half of the year will be weak, and any growth in the second part is tied to events in Washington.

1.20 PRICES
(Table 1.20 on page 15)

The estimate of the inflation rate for 1981 is maintained here as being 12.4 per cent. The main price increases will be in food, energy, machinery and chemicals. The reader is referred to table 1.20 on page 15 for actual CPI and other data.

KEDI anticipates that food prices will increase about 12 per cent during the year. That is in line with recent Department of Agriculture pronouncements that food costs will go up by about 1 per cent a month. The suggestion by the new chairman of the Joint Economic Committee, Rep. Henry Reuss, that because of the rapid rise expected in food prices, the President consider a freeze on wages and prices probably will not be viewed by the White House as desirable.

Indicative of the overall conditions in the economy is the gain expected in the price of meat. The number of cattle on feedlots at the end of December was down by 5 per cent from the year-earlier total as cattlemen attempted to deal with high interest rates and increasing corn prices. Current prices are below the break-even point for many cattlemen and some discouraged ones have been sending breeding stock to the market. This all adds up to even higher prices for the beef eater--and possible smaller portions at home.

The Agriculture Department projects that during 1981 the average retail price for beef will jump up by 14 per cent. Current plentiful supplies will soon be depleted.

As to energy prices, a recent historical perspective provides a depressing framework. Energy-product prices went up by 27.2 per cent in 1980 from the 1979 level. The increase in 1979 had been a whopping 62.7 per cent. The forecast by KEDI for the 1981 increase over the prior year is 30.4 per cent. (It is doubted that even the optimist would care to have that phrased in rosy terms such as "the price gain expected this year is less than half the rate of gain that took place between 1978 and 1979!!" That phrasing might even get "Little Mary Sunshine" booed off the stage.)

Oil prices for the first quarter coming out of OPEC have been settling at a weighted average of about $35 a barrel. That is up about $3 a

barrel from the level before the OPEC meeting in Bali (and it brings new meaning to the song from South Pacific called "Bali Ha'i.") The projection here is that the price will reach $40 a barrel by the end of the year.

The decontrol order for crude oil and gasoline is expected to add about $4 to the cost of a barrel of crude oil. This translates into a gain in the per gallon price of about 10 cents. That is the figure that KEDI has maintained and the one seen as most likely as being the result of the hikes on crude oil by the end of this year. It is not likely that oil companies will absorb the barrel price increases without passing them on to the consumer.

Calculations at KEDI show that steel prices will go up by approximately 9 per cent this year. The first signs of increases are already apparent in that a major steel producer announced that prices will go up an average of 7.5 per cent in March on certain steel plates, pilings, and structural shapes. It was last October when prices for these products went up an average of 4 per cent.

The forecast here for the prices gains of some other products during 1981 as compared to 1980 follows: Machinery: +12.9%; Chemicals: +13.6%; Lumber: +10.2%; Primary metals: +9.5%; Autos: +8.0%; Textiles: +7.4%; Paper and products: +7.2%; Rubber and products: +6.5%.

In general, producer prices in 1981 are expected to go up by 13.6 per cent. Such gains obviously exceed the expected rise in the CPI.

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TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Consumer Price Index, NSA	1967=100	246.7	263.5	273.5	282.1	289.3	277.1
Producer Price Index, NSA	1967=100	269.8	290.3	302.5	311.3	322.4	306.6
Implicit GNP Price Deflator	1972=100	177.4	188.4	193.7	197.1	201.1	195.1
Gross National Product	bil. $	2628.8	2804.0	2899.6	2979.2	3075.8	2939.7
Personal Consumption Expenditures	bil. $	1671.1	1771.5	1891.4	1940.7	2001.3	1901.2
Gross Private Dom. Investment	bil. $	434.9	414.3	430.3	465.9	482.2	448.2

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Consumer Price Index, NSA	1967=100	277.1	299.0	303.5	310.9	320.4	308.4
Producer Price Index, NSA	1967=100	306.6	330.1	339.8	347.6	354.9	343.1
Implicit GNP Price Deflator	1972=100	195.1	205.6	209.3	213.5	217.1	211.4
Gross National Product	bil. $	2939.7	3152.9	3238.3	3348.2	3445.5	3296.2
Personal Consumption Expenditures	bil. $	1901.2	2047.5	2104.6	2170.3	2243.8	2140.6
Gross Private Dom. Investment	bil. $	448.2	507.4	526.2	542.8	571.3	536.9

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Consumer Price Index, NSA	1967=100	308.4	327.8	336.7	347.1	354.2	341.5
Producer Price Index, NSA	1967=100	343.1	363.6	373.2	381.2	390.4	377.1
Implicit GNP Price Deflator	1972=100	211.4	221.7	225.9	231.2	235.9	228.7
Gross National Product	bil. $	3296.2	3528.2	3640.8	3769.7	3868.5	3701.8
Personal Consumption Expenditures	bil. $	2140.6	2323.5	2406.4	2509.7	2572.4	2453.0
Gross Private Dom. Investment	bil. $	536.9	502.8	644.9	683.4	705.8	659.2

* Historical Data

1.30 EMPLOYMENT AND LABOR
(Table 1.30 on page 17)

When being compared with other forecasters, the KEDI calculations of the unemployment rate can be seen as being at a relatively "low" level. It is expected here that average unemployment in 1981 will be 7.6 per cent. Included here are the forecasts of this figure by five others in this field.

	Unemployment Rate forecast for 1981
Chase Econometric Assoc.	8.3
Data Resources	7.9
Wharton	8.0
Merrill Lynch	7.7
Michigan	7.9

The projection by this Institute of a relatively low rate of joblessness is based on the balancing effect that expected high employment for the following areas will have: mining, chemicals, primary metals, machinery, plastics, ordnance and accessories, aircrafts, and aerospace. Also, fairly good levels of employment are forecast by KEDI for rubber, paper, petroleum products, printing and publishing, and the food industry.

The KEDI projection of the average workweek for those employed in factories has been slightly increased. This change is the result of the small revision of the forecast data here for employment in durable goods industries.

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TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Population	mil.	223.0	224.7	225.5	226.3	227.1	225.9
Civilian Labor Force	mil.	105.025	106.6	107.0	107.8	108.5	107.5
Employed	mil.	97.5	98.3	98.8	99.7	100.4	99.3
- Agriculture	mil.	3.4	3.3	3.3	3.4	3.3	3.3
- Non Agriculture	mil.	94.126	95.0	95.5	96.3	97.1	96.0
Unemployment Rate	%	7.19	7.81	7.64	7.49	7.43	7.59

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.8
Civilian Labor Force	mil.	107.5	109.1	109.9	110.7	111.6	110.3
Employed	mil.	99.8	101.1	101.9	102.9	103.7	102.4
- Agriculture	mil.	3.3	3.4	3.4	3.3	3.3	3.4
- Non Agriculture	mil.	96.0	97.7	98.5	99.6	100.4	99.0
Unemployment Rate	%	7.59	7.35	7.26	7.07	7.10	7.19

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Population	mil.	229.8	231.5	232.2	232.9	233.4	232.5
Civilian Labor Force	mil.	110.3	112.7	113.9	114.3	115.1	114.0
Employed	mil.	102.4	104.9	106.1	106.6	107.5	106.3
- Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4
- Non Agriculture	mil.	99.0	101.6	102.7	103.3	104.1	102.9
Unemployment Rate	%	7.19	6.94	6.89	6.75	6.61	6.80

* Historical Data

Employment and Labor

It is expected that the average weekly number of hours worked by quarter for 1981 will show gradual gains. The average is calculated to be 40.0 hours in the first quarter, 40.3 in the second, 40.4 in the third, and up to 40.9 in the last quarter of the year.

1.40 HOUSING

(Table 1.40 on page 20)

KEDI agrees with the majority of forecasters in their view of the first half of the year as being sluggish with some recuperation in the latter part. It is anticipated that in 1982 there will be 13 per cent more housing starts than in the prior year and the gain in 1983 will be 8.8 per cent. More substantial increases are expected by this Institute in 1984 and in 1985.

Certain factors stand out as contributing to the rather low level of housing activity through 1983. First, interest rates on mortgages will remain high throughout this period. Although there will be some decline, this Institute expects that the rate for mortgages at the end of 1983 will still be in the area of 11 per cent.

Secondly, the level of Federal support for housing will be declining. In 1980, roughly 40 per cent of housing starts had some support from the Federal Budget. It is assumed that with the trimming that is going on in Washington, that involvement will be reduced to about 30 per cent of housing starts in 1981 and to about 20 per cent in both 1982 and 1983.

A third factor to consider is that the prices of houses will not increase as quickly as the CPI inflation rate. KEDI anticipates that the average price of a home will gain by 7 per cent in 1981 and by 8 per cent the following year. Given the interest rate situation that is expected, from the builders standpoint, this will soften the supply side of the market.

More normal conditions will occur in 1984 and 1985. The forecast for the former year is 1.7 million and for the latter, it is 1.9 million housing units starts.

This Institute does not agree with Mr. Sumichrast of the National Association of Home Builders in his estimate that at least two million new dwellings must be built every year during the current decade to meet the demand for new housing. It is calculated here that 1.7-1.8 million will cover the average yearly demand in this period. That is approximately the present existing capacity of home builders.

If more housing than that were built, capacity would be strained, inflationary pressures would be added, and shortages would take place. KEDI does not anticipate that being part of the pattern during the next five years.

TABLE 1.40 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Single-Family Housing Starts	mil.	.858	.743	.934	.914	.901	.873
Multifamily Housing Starts	mil.	.461	.397	.501	.520	.573	.497
Mobile Home Shipments	mil.	.187	.208	.209	.250	.273	.230
Housing Permits Issued	mil.	.896	1.074	.979	1.326	1.397	1.150
Construction Costs-Commerc.	1972=100	198.6	209.8	218.9	223.2	233.4	221.3
Construction Costs-Resident.	1972=100	198.8	211.7	218.2	222.7	233.7	221.6

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Single-Family Housing Starts	mil.	.883	.847	.973	1.073	1.014	.977
Multifamily Housing Starts	mil.	.500	.513	.589	.614	.606	.581
Mobile Homes Shipments	mil.	.230	.261	.311	.320	.325	.304
Housing Permits Issued	mil.	1.150	1.369	1.704	1.789	1.683	1.636
Construction Costs-Commerc.	1972=100	221.3	240.0	253.7	262.1	270.5	256.6
Construction Costs-Resident.	1972=100	221.6	239.5	253.0	260.2	268.7	255.4

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Single-Family Housing Starts	mil.	.977	.935	1.104	1.179	1.043	1.065
Multifamily Housing Starts	mil.	.581	.514	.587	.614	.632	.587
Mobile Homes Shipments	mil.	.304	.304	.341	.367	.394	.352
Housing Permits Issued	mil.	1.636	1.594	1.786	1.843	1.756	1.745
Construction Costs-Commerc.	1972=100	256.6	278.3	287.9	299.2	299.2	294.4
Construction Costs-Resident.	1972=100	255.4	276.5	285.4	297.0	310.4	292.3

* Historical Data

1.50 GOVERNMENT BUDGETS

(Table 1.50 on page 22)

The forecast data for government budgets are based on the assumptions of the following: 10 per cent federal income tax cuts in each of the years 1981 through 1983, the 40 per cent depreciation acceleration rate, $7 billion in business tax cuts in 1981 and $10 billion in 1982, roughly $15 billion in cuts in federal spending this fiscal year and $35 billion in fiscal 1982 (which begins on October 1, 1981).

The assumptions include the following estimates of the budget cuts. More details of the cuts will not be known until the Administration announces its plan on February 18. Assumptions here will be adjusted to incorporate any changes that may be revealed at that time.

Current Assumptions about Budget Cuts
in Each of Two Years, in billions of dollars

	1981	1982
Food Stamps	$1 billion	$1 billion
Elimination of Public Jobs	1 billion	4 billion
Synthetic Fuels Development	2 billion	4 billion
Medicaid, Urban Development, Highways, Social Security Benefits	8 billion	21 billion
Federal Grants in Aid	3 billion	5 billion
	$15 billion	$35 billion

Given the assumption just outlined, the estimate for the deficit for this year is in the $55-60 billion range. In 1982, that should decline to the $35 billion area. No balanced budget is foreseen by KEDI through the mid-1980's.

TABLE 1.50 FEDERAL AND STATE
AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	256.4	277.8	286.5	291.4	297.3	288.4
Corporate Profit Tax Accruals	bil. $	69.7	75.9	81.4	87.3	95.6	85.1
Surplus./Deficit	bil. $	-64.1	-65.6	-59.7	-54.3	-48.7	-57.1
State and Local Governments:							
Income Taxes	bil. $	80.2	86.8	88.9	91.3	93.4	90.1
Corporate Profit Tax Accruals	bil. $	12.2	13.1	14.0	15.0	15.9	14.5
Surplus./Deficit	bil. $	27.0	28.4	27.5	25.6	24.1	26.4

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	288.4	308.9	317.6	328.1	338.4	323.3
Corporate Profit Tax Accruals	bil. $	85.1	101.4	108.3	115.6	123.7	112.3
Surplus./Deficit	bil. $	-57.1	-44.3	-37.2	-31.6	-33.4	-36.6
State and Local Governments:							
Income Taxes	bil. $	90.1	95.7	98.1	101.5	103.8	99.8
Corporate Profit Tax Accruals	bil. $	14.5	16.6	17.8	18.3	19.5	18.1
Surplus./Deficit	bil. $	26.4	23.9	22.7	22.4	23.1	22.8

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Federal Govt.:							
Income Taxes	bil. $	323.2	349.5	360.1	373.4	385.2	139.1
Corporate Profit Tax Accruals	bil. $	112.3	130.4	136.7	142.5	149.3	139.7
Surplus./Deficit	bil. $	-36.6	-36.5	-39.4	-36.8	-32.5	-36.3
State and Local Governments:							
Income Taxes	bil. $	99.8	106.1	108.5	110.4	113.1	109.5
Corporate Profit Tax Accruals	bil. $	18.1	20.4	21.6	22.7	24.0	22.2
Surplus./Deficit	bil. $	22.8	23.8	24.2	25.3	25.6	24.7

* Historical Data

There are no basic changes in the forecast of state and local budgets as compared with the previous issue. The surpluses have been slightly reduced as smaller amounts of Federal grants-in-aid are projected than had been assumed last month. The drop in this area is projected to be larger than the offsetting impacts of increased accruals of state and local taxes.

1.60 INCOME
(Table 1.60 on page 25)

The annual 10 per cent tax cuts in each of the next three years have been incorporated in projections here since the November issue. The forecast shows that the general consequences of these cuts will be in personal savings rather than in spending on consumer goods.

First, the forecast data show that the major portion of the money represented by the reduced taxes will be offset by two things: the increases in social security taxes that will take bigger bites during the 1981 through 1983 period and the increases in the Federal Income tax payments that will occur because cost-of-living adjustments in wages and even partial "adjustments" push many into higher tax brackets.

As the reader knows, Social Security tax payments have had to be increased partly because there are fewer workers increasingly helping to support more and more retired people that are living longer. Just in the last decade the life expectancy for men has gone up by another year and for

Income

women, it has gone up by two years. As Louis Rukeyser pointed out in a recent column, the maximum tax per worker will reach $1,975 this year whereas it was $965 in 1977. The annual hikes currently planned will bring the maximum up to slightly more than $3,000 in 1987. To quote him, "In reality, Social Security is most workers' fastest-rising tax..." (Akron Beacon Journal, Jan. 12, 1981, page D4.) It can only be hoped that the workers paying that tax squelch some resentment by looking to their own retirement when other whippersnappers will be "supporting" them.

Calculations here show that the projected 10 per cent yearly tax cuts in the income tax will boost the personal savings by 1.8 per cent in 1981, and by 1.5 per cent in 1982, and 0.9 in 1983.

The forecast here concerning corporate profits has been somewhat reduced from the figures used in the December issue. The revision in the forecast of the production and sale of automobiles in the first half of 1981 was the main reason for the change.

The small impact of the tax cuts on the purchases of durable goods is forecasted to add 0.9 per cent to such transactions in 1981 over the prior year, 0.6 per cent in 1982, and 0.3 per cent in 1983.

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Personal Income	bil. $	2161.0	2285.6	2420.2	2491.4	2548.5	2436.4
Personal Dispos. Income	bil. $	1822.2	1921.0	2044.8	2098.7	2157.3	2055.5
Compensation of Employees	bil. $	1596.7	1713.1	1784.5	1845.7	1898.2	1810.4
Corp. Profits After Tax	bil. $	164.8	168.3	172.1	179.6	187.3	176.8
Personal Saving	bil. $	103.6	101.1	104.5	108.7	106.2	105.1
Average Weekly Earnings	$	297.1	311.4	312.4	314.8	318.5	314.3

Indicator	Unit	1981	1982				1982
			1	2	3	4	
Personal Income	bil. $	2436.4	2608.1	2678.3	2759.1	2842.5	2723.3
Personal Dispos. Income	bil. $	2055.5	2203.5	2262.2	2329.5	2405.3	2300.2
Compensation of Employees	bil. $	1810.4	1984.6	2025.1	2076.7	2167.1	2063.4
Corp. Profits After Tax	bil. $	176.8	190.5	196.7	201.5	206.8	198.9
Personal Saving	bil. $	105.1	105.4	106.7	107.3	108.9	107.1
Average Weekly Earnings	$	314.3	322.4	326.8	330.5	335.7	328.9

Indicator	Unit	1982	1983				1983
			1	2	3	4	
Personal Income	bil. $	2723.3	2933.7	3041.3	3160.8	3243.4	2094.8
Personal Dispos. Income	bil. $	2300.2	2488.1	2572.7	2677.0	2745.1	2620.7
Compensation of Employees	bil. $	2063.4	2280.8	2372.5	2486.1	2561.3	2425.2
Corp. Profits After Tax	bil. $	198.9	213.5	216.8	221.2	225.6	219.3
Personal Saving	bil. $	107.1	106.1	108.5	110.4	113.1	109.5
Average Weekly Earnings	$	328.9	337.2	340.5	343.6	346.2	341.9

* Historical Data

1.70 MONEY AND CREDIT
(Table 1.70 on page 27)

Since the last issue of the Survey, the data for 1981 have been lowered somewhat for the money supply, M1A, for the first half of this year. This is a result of the slight downward revision in the overall performance of the economy in the first quarter and the anticipation of a little less growth in the second part of the year than was calculated in December.

The forecast that was made last month for consumer credit has not been changed significantly. Steady growth in the 3 per cent range is expected for each year through 1985. No major fluctuations are seen. By comparison, consumer installment debt was up just 0.2 per cent between November of 1979 and November of 1980 (latest available). However, such debt had increased by 14 per cent in 1979 and by over 18 per cent in 1978.

KEDI expects that the upward trend in the commercial and industrial loan market will resume in the second quarter of this year. Early data for January indicated some cooling in the demand for loans. That will also be true in February and March. A more vigorous upturn is anticipated in 1982 and the following year as can be seen on Table 1.70 on page 27.

KEDI assumes that the Federal Reserve will loosen its tight policy ever-so-lightly in the second quarter of this year. A cooling in the demand for short-term credit is expected now by more and more bankers and economists. That will help lead the way to some lowering in interest rates. It is in line with the third assumption on page 6 which

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TABLE 1.70 MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	377.4	384.5	389.7	396.7	408.7	394.9
Time Deposits, Adjusted, M2	bil. $	1596.2	1661.6	1673.5	1712.3	1735.1	1695.6
Consumer Instal. Credit	bil. $	310.5	314.3	317.6	322.4	327.8	327.8
Commerc. and Industr. Loans at Banks	bil. $	313.6	316.9	318.5	326.9	335.4	335.4
Negotiable Cert. of Deposits	bil. $	129.2	136.8	141.5	146.2	148.3	148.3
Mortgages at S & L Assns.	bil. $	486.5	496.5	501.0	508.7	517.6	517.6
Indicator	Unit	1981	1982				1982
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	394.9	414.1	418.7	424.5	429.7	421.8
Time Deposits, Adjusted, M2	bil. $	1695.6	1732.5	1769.8	1800.9	1835.3	1784.6
Consumer Instal. Credit	bil. $	327.8	334.6	338.5	346.8	354.2	354.2
Commerc. and Industr. Loans at Banks	bil. $	335.4	340.8	348.7	356.9	364.3	364.3
Negotiable Cert. of Deposits	bil. $	148.3	150.1	151.2	152.2	153.1	153.1
Mortgages at S & L Assns.	bil. $	517.6	521.2	525.7	531.4	536.8	536.8
Indicator	Unit	1982	1983				1983
			1	2	3	4	
Currency + Demand Deposits, M1A	bil. $	421.8	436.5	445.4	456.7	464.3	450.7
Time Deposits, Adjusted, M2	bil. $	1784.6	1862.7	1921.5	1967.8	1014.8	1941.7
Consumer Instal. Credit	bil. $	354.2	360.8	367.5	375.5	385.8	385.8
Commerc. and Industr. Loans at Banks	bil. $	364.3	369.7	376.3	381.2	385.8	385.8
Negotiable Cert. of Deposits	bil. $	153.1	155.2	158.7	162.3	166.4	166.4
Mortgages at S & L Assns.	bil. $	536.8	541.3	547.2	553.9	560.7	560.7

* Historical Data

Money and Credit

has been the same since September of last year.

1.80 INTEREST RATES, YIELDS AND SECURITIES PRICES

(Table 1.80 on page 31)

The data for interest rates reflect very minor changes when compared to figures in the last issue of this publication. The forecast that such rates will continue to decline throughout the 1981-83 period is maintained. Some resumption of the upward trend is projected for 1984 and 1985.

Still, the decline in these rates will be very slow. Influences that are significant are the government deficit, the demand for business loans, and the tight credit policy attitude entrenched in the Federal Reserve.

Taking the biggest first, forecast data show that the federal deficit will still be considerable in 1981--$55 billion. High government demand for funds will soak up a substantial portion of those that otherwise would be available to businesses and state and local governments. The large demand for funds by the nation's government will prevent any sharp decline in the interest rates.

Interest Rates, Yields and Securities Prices

Another factor contributing to the slow rate of decline in interest rates is that there will be an increase in the demand for business loans, expecially in the second half of this year. That gain in demand will not come from much expansion of business but will be due to inflation. Regardless of the level of sales, the companies will be paying more and more just to meet expenses--hence the need for loans. The demand for loans by business is expected to amount to roughly $130 billion. The level of business activity is expected to be nearly flat.

The increase in the GNP level in constant dollars will be 1.6 per cent. However, GNP in CURRENT dollars is projected to rise by close to 12 per cent. Loans are counted in CURRENT dollars. Therefore, they will keep increasing.

The third factor to consider is the ability of the Federal Reserve to relax their tight credit policy with any degree of enthusiasm. It is anticipated that their action will be very slow, uptight, and cautious. It will not be as dramatic as the loosening that took place in the May-June period of last year.

KEDI does not agree with the consensus of the forecasters listed in Blue Chip Economic Indicators. For example, the average for the interest rate on six-month commerical paper is viewed as declining to 11.9 per cent in the second quarter of this year in that survey. It will not decline that much by that time.

Interest Rates, Yields and Securities Prices

Mr. Yardeni, the chief economist for E.F. Hutton & Co., indicated that the prime rate will move smoothly downward and reach 13 per cent by spring. Stopping to listen and agreeing with that prediction is viewed here as being too optimistic.

The opinions expressed by Anthony M. Solomon, president of the Federal Reserve Bank of New York that the goal of curtailing the inflation rate requires moderation and a steady monetary policy is one that KEDI does share.

The forecast for various rates at the end of this year by KEDI are presented with the rates as they existed at the end of 1980.

	Dec. 1980	Dec. 1981
Prime rate	21%	15%
Commercial paper, 4-6 mo.	18%	14%
Conventional mortgage rate	15%	13%
3 month Treasury bills	16%	14%

A factor that is more hidden and volatile is the role of expectations. The extent and depth of inflation psychology for instance or the degree of positive expectations for the economy in general. In that regard there is always more latitude for error for predictions by anyone in this area. This will not be avoided here though by couching forecasts in broad terms such as saying rates will vary from 10 to 25 per cent.

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TABLE 1.80 INTEREST RATES, YIELDS
AND SECURITIES PRICES
(Three months averages)

Indicator	Unit	1980*	1981				1981
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.86	13.43	12.14	11.36	10.75	11.90
Prime Rate	%	15.10	18.36	17.06	16.34	15.21	16.74
Mortgage Rate, New Homes	%	12.96	14.27	14.01	13.75	13.16	13.80
Aaa Bonds Rate	%	11.89	12.36	12.07	11.64	10.97	11.04
Long Term Govt. Bonds Yield	%	10.96	11.47	11.14	10.89	10.64	11.04
Standard & Poor's 500 Average	1941-43 =10	114.70	118.21	121.65	125.19	127.38	123.11

Indicator	Unit	1981	1982				1982
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	11.90	11.04	10.36	10.12	10.35	10.47
Prime Rate	%	16.74	15.16	15.01	14.47	14.10	14.69
Mortgage Rate, New Homes	%	13.80	13.09	12.95	12.86	12.71	12.90
Aaa Bonds Rate	%	11.76	10.73	10.65	10.51	10.26	10.54
Long Term Govt. Bonds Yield	%	11.04	10.14	10.11	10.19	10.15	10.15
Standard & Poor's 500 Average	1941-43 =10	123.11	126.53	125.81	123.76	126.54	125.66

Indicator	Unit	1982	1983				1983
			1	2	3	4	
3 mo Treas. Bills Rate (new issues)	%	10.47	10.02	10.14	10.21	10.15	10.13
Prime Rate	%	14.69	13.86	13.54	13.26	13.24	13.48
Mortgage Rate, New Homes	%	12.90	12.32	12.46	12.73	12.86	12.59
Aaa Bonds Rate	%	10.54	10.12	10.26	10.47	10.67	10.38
Long Term Govt. Bonds Yield	%	10.15	10.08	10.19	10.31	10.48	10.27
Standard & Poor's 500 Average	1941-43 =10	125.66	127.14	128.65	129.95	128.31	128.51

* Historical Data

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Implicit GNP Price Deflator has been selected for comparison. Actual figures for the first three quarters of 1980 have been taken from the December 23, 1980 release of COMMERCE NEWS (U.S. Department of Commerce, Bureau of Economic Analysis, Washington, D.C.). The fourth quarter 1980 value is the January 1981 estimate of the U.S. Department of Commerce, communicated to KEDI January 22, 1981. The actual value of the Deflator, for 1980, as reported here, may have been slightly changed due to future revisions of the fourth quarter 1980 data by the U.S. Department of Commerce. Forecast data is from Business Forecasts 1980, Library of Congress Catalogue Card No: 75-189493. The table on the next page shows the predictions of forecasters and the deviations of forecast data.

TABLE 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

IMPLICIT GNP PRICE DEFLATOR
(Year 1980, 1972 = 100)

Actual: 177.4

Forecaster	Page in Business Forecasts 1980	Forecast	% of Accuracy
United California Bank	7	179.8	+1.3
Albert T. Sommers, Conference Board	7	180.04	+1.4
Cities Service Company	9	181.3	+2.1
Gulf Oil Corporation	11	180.42	+1.7
Metropolitan Life	11	179.3	+1.0
U.S. Trust Company	12	181.1	+2.0
Walter Fackler, University of Chicago	17	179.9	+1.4
Manufacturers Hanover Trust	20	177.2	-.01
Chemical Bank	21	180.0	+1.4
The First National Bank of Chicago	22	180.7	+1.8
American Statist Association and National Bureau of Economic Research	23	179.8	+1.3
Georgia State University	24	179.89	+1.4
Peter L. Bernstein, Inc.	25	180.7	+1.8
The JCIA National Business Forecast	26	179.3	+1.0
Cyrus J. Lawrence, Inc.	27	179.8	+1.3
Wharton Econometric Forecasting Associates	27	181.50	+2.3
Bankers Trust Company	28	181.50	+2.3
WGN Continental Broadcasting Co.	28	177.4	.0
Goldman Sachs	29	181.2	+2.1
The Fidelity Bank	30	182.1	+2.6
KEDI	31	179.7	+1.2
U.S. News and World Report	32	179.0	+ .9
Citibank	32	180.45	+1.7
Data Resources, Inc.	33	180.8	+1.9
Equitable Life Assurance Company	34	180.5	+1.7
Morgan Guaranty Trust Company	35	180.2	+1.5
Argus Research Corporation	36	178.6	+ .6

This comparison shows a tendency rather than values of errors, since the actual value of the Deflator is calculated from data in the December 23, 1980 benchmark revision of National Income and Product Data, conducted by the U.S. Department of Commerce. The forecast data refer to the pre-benchmark revision and are not strictly comparable.